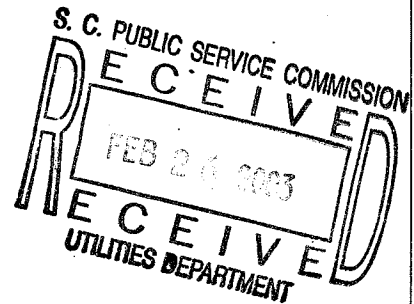


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ORIGINAL

**Application of
Links Water Treatment, LLC
for approval of an establishment of rates and charges
for the operations of a sewer system and for
establishment of a service territory**



Docket No. 2002-328-S

**Direct Testimony of
Sharon G. Scott
Audit Department**

DATE: 02/26/03
BY: SC

SC PUBLIC SERVICE
COMMISSION

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Public Service Commission of South Carolina

TESTIMONY OF SHARON G. SCOTT

FOR

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2002-328-S

IN RE: LINKS WATER TREATMENT, LLC

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Sharon G. Scott. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am an Auditor for the Public Service Commission of South Carolina.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in May 1983 and a MBA degree from Webster University in May 2000. I was employed by this Commission in July 1983, and have participated in cases involving gas, electric, telephone, and water and wastewater utilities. I have 19 years of auditing experience.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING LINKS WATER TREATMENT, LLC?

1 A. The purpose of my testimony is to set forth, in summary form, the Staff's findings
2 and recommendations resulting from our review of the Company's application in this
3 docket. These findings and recommendations are set forth below and in the attached
4 exhibits.

5 **Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE OR**
6 **CAUSE TO BE PREPARED CERTAIN EXHIBITS?**

7 A. Yes, I prepared Audit Exhibit A, Operating Experience and Operating Margin, and
8 Audit Exhibit A-1, Explanation of Accounting and Pro Forma Adjustments. Both
9 Exhibits are attached to my testimony and use a test year ended December 31, 2002.

10 **Q. MS. SCOTT, SINCE THIS IS AN ESTABLISHMENT CASE, HOW DID YOU**
11 **DETERMINE KNOWN AND MEASURABLE EXPENSES?**

12 A. The Company has been operating since October 25, 1999, therefore Staff was able to
13 verify actual expenses to the Company's books and records. The Staff made the
14 appropriate accounting and pro forma adjustments to the Company's 2002 estimated
15 annual expenses filed in the application. The adjustments are shown in Audit Exhibit
16 A-1.

17 **Q. PLEASE EXPLAIN THE FORMAT OF AUDIT EXHIBIT A?**

18 A. Column (1) shows the revenues and expenses per the Company's application. Staff
19 uses a test year ended December 31, 2002. Shown in this column is Net Income
20 (Loss) for Return of (\$4,496) and per book Operating Revenue of \$11,760 which
21 produces an Operating Margin of (38.23%).

1 Column (2) shows the Staff's accounting and pro forma adjustments. Details of each
2 adjustment are shown in Audit Exhibit A-1.

3 Column (3) shows the As Adjusted figures, computed as a result of the accounting
4 and pro forma adjustments. Staff computed Net Income (Loss) for Return of
5 (\$3,285) and Operating Revenues of \$19,448, producing an Operating Margin of
6 (16.89%).

7 **Q. WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT A-1?**

8 A. Yes, the adjustments are as follows:

9 Adj. # 1 – The Utilities Staff annualized revenues to show the effect of the rate
10 proposed in this establishment case of \$221 per quarter. The Company has 22
11 customers and Staff computed total revenues of \$19,448 (22 x \$221 x 4 quarters).
12 Staff's adjustment amounts to \$7,688, which is the total as adjusted revenue of
13 \$19,448 less the per filing revenue of \$11,760.

14 Adj. #2 – The Staff proposes to adjust electric expenses to reflect the per book
15 expense for the test year. The per book expense was adjusted to show expenses for
16 12 months which amounted to \$3,482. The per filing amount was \$3,924, which
17 resulted in an adjustment of (\$442).

18 Adj. #3 – The Staff proposes to annualize bank fees of \$12 per month and include the
19 cost of company checks. Total bank charges amounted to \$195 less the per filing
20 amount of \$160 resulting in an adjustment of \$35.

1 Adj. #4 – Water Expenses for the lift station and sewer plant were adjusted to the
2 actual per book amount of \$331. The per filing amount was \$360, which amounted
3 to an adjustment of (\$29).

4 Adj. #5 – Staff proposes to adjust postage expense to reflect the per book amount of
5 \$160. The per filing amount was \$60, resulting in an adjustment of \$100.

6 Adj. #6 – The Company shows in its filing an amount of \$400 for the DHEC permit.
7 Staff found that the actual amount for the permit was \$530, resulting in an adjustment
8 of \$130.

9 Adj. #7 - The Staff proposes to annualize the operator's fee of \$570 per month and
10 reflect the actual repairs and maintenance per books. The total expenses amounted to
11 \$8,107 less the per filing amount of \$8,340 for an adjustment of (\$233).

12 Adj. #8 – The Staff proposes to include the accounting and license fee totaling \$210.
13 This amount was not included in the per filing numbers.

14 Adj. #9 – Since the Company has no rate case history, the Staff proposes to include
15 in the test year, total legal expenses of \$7,500 which are associated with this
16 establishment case. These expenses were paid by T & S Partnership, who is also the
17 owner of Links Water Treatment, LLC. For informational purposes, the Staff also
18 computed a 3, 4, and 5-year amortization period for these legal expenses. The
19 expense for a 3-year amortization would be \$2,500 with a resultant operating margin
20 of 7.12%. The expense for a 4-year amortization would be \$1,875 with a resultant
21 operating margin of 9.72%. The expense for a 5-year amortization would be \$1,500
22 with a resultant operating margin of 11.27%.

1 Adj. #10 – The Staff proposes to remove \$1,000 shown as annual reserves in the
2 Company's filing. An annual reserve is not an actual expense and is deleted as a line
3 item.

4 Adj. #11 – Staff proposes to adjust the county property taxes to reflect the actual per
5 book taxes of \$60. Per Company filing, the tax amount is \$12 which resulted in an
6 adjustment of \$48.

7 Adj. #12 – Staff computed gross receipts taxes on the total as adjusted revenue of
8 \$19,448, using a gross receipts factor of .008141931. This adjustment amounted to
9 \$158. Staff used total as adjusted revenue because there were no gross receipts taxes
10 per books.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A. Yes, it does.**

Links Water Treatment, LLC
 Operating Experience and Operating Margin
 Test Year Ended December 31, 2002

<u>Description</u>	(1) Per Company's Filing.	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted
	\$	\$	\$
Operating Revenues	11,760	7,688 (1)	19,448
Miscellaneous Revenues	0	0	0
Tap Fee Revenues	0	0	0
<u>Total Operating Revenues</u>	<u>11,760</u>	<u>7,688</u>	<u>19,448</u>
Electricity	3,924	(442) (2)	3,482
Bank Fees	160	35 (3)	195
Water	360	(29) (4)	331
Postage	60	100 (5)	160
Permit	400	130 (6)	530
Testing, Maintenance & Repairs	8,340	(233) (7)	8,107
Bookkeeping, Billing, Prof. Fees & Audit	2,000	7,710 (8)	9,710
Annual Reserves	1,000	(1,000) (9)	0
Taxes Other Than Income	12	206 (10)	218
Income Taxes	0	0	0
<u>Total Operating Expenses</u>	<u>16,256</u>	<u>6,477</u>	<u>22,733</u>
<u>Net Operating Income (Loss)</u>	<u>(4,496)</u>	<u>1,211</u>	<u>(3,285)</u>
Customer Growth	0	0	0
<u>Net Income (Loss) for Return</u>	<u>(4,496)</u>	<u>1,211</u>	<u>(3,285)</u>
<u>Operating Margin</u>	<u>-38.23%</u>		<u>-16.89%</u>

Links Water Treatment, LLC											
Explanation of Accounting and Pro Forma Adjustments											
Test Year Ended December 31, 2002											
Adj. #	Description	(1) Operating Revenues	(2) Electricity	(3) Bank Fees	(4) Water	(5) Postage	(6) Permit	(7) Test, Maint., & Repairs	(8) Bookkeeping Billing, etc.	(9) Annual Reserves	(10) Taxes Other Than Inc.
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	To adjust revenue to reflect current customers at the establishment rate. (U)										
	Per Staff	7,688									
	Per Company	0									
2	To adjust electric expense to reflect the actual per book expense for the test year. (A)										
	Per Staff		(442)								
	Per Company		0								
3	To annualize bank fees of \$12 per month and include other per book bank expenses. The Company's bank expenses totalled \$195. (A)										
	Per Staff			35							
	Per Company			0							
4	To adjust estimated water expenses to reflect the actual per book amount of \$331. (A)										
	Per Staff										
	Per Company			(29)							
5	To adjust estimated postage expenses to reflect the actual per book amount of \$160. (A)										
	Per Staff									100	
	Per Company									0	

Adj. #	Description	(1) Operating Revenues	(2) Electricity	(3) Bank Fees	(4) Water	(5) Postage	(6) Permit	(7) Test., Maint., & Repairs	(8) Bookkeeping Billing, etc.	(9) Annual Reserves	(10) Taxes Other Than Inc.
6	To include the actual expense for the DHEC permit. The total expense for the permit was \$530 and only \$400 was shown for 2002 expenses as filed by the Company. (A)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Per Staff						130'				
	Per Company						0				
7	To annualize the operator's fees of \$570 per month and reflect the actual repairs & maintenance expenses per books. (A)							(233)	0		
	Per Staff										
	Per Company										
8	The Staff proposes to include the cost of accounting services and a license fee. This amount was not included in the Company's estimated annual expenses per filing. (A)										
	Per Staff								210		
	Per Company								0		
9	Since the Company has no rate case history, the Staff proposes to include total legal expenses of \$7,500 associated with this establishment case. These expenses were paid by T&S Partnership, who is also the owner of Links Water Treatment, LLC. (A)										
	Per Staff										
	Per Company								7,500		

Links Water Treatment, LLC
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2002

Adj. #	Description	(1) Operating Revenues	(2) Electricity	(3) Bank Fees	(4) Water	(5) Postage	(6) Permit	(7) Test., Maint., & Repairs	(8) Bookkeeping Billing, etc.	(9) Annual Reserves	(10) Taxes Other Than Inc.
10	To remove the operating reserve as a line item. Operating reserves are not an actual expense and should be deleted as a line item. (A)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	Per Staff									(1,000)	
	Per Company									0	
11	To adjust the Greenville County taxes to reflect the per book amount of \$60. The per filing amount was \$12. (A)										
	Per Staff										48
	Per Company										0
12	To compute gross receipts taxes using a factor of 0.008141931 and as adjusted revenue of \$19,448. There were no gross receipts taxes per books. (A)										
	Per Staff										158
	Per Company										0
<u>Total Accounting and Pro Forma Adjustments - Per Staff</u>		7,688	(442)	35	(29)	100	130	(233)	7,710	(1,000)	206

(A) - The Audit Department is responsible for this adjustment.

(U) - The Utilities Department is responsible for this adjustment.